

Message Text

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ACTION NEA-11

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C O N F I D E N T I A L CAIRO 12503

DEPT PASS AID

E.O. 11652: GDS
TAGS: EINV, ETRD, EG
SUBJECT: U.S. TELECOMMUNICATIONS PROPOSAL FOR EGYPT

REF: (A)STATE 115363, (B)CAIRO 12446, (C)CAIRO 11892,
- (D)STATE 109182

1. NO ONE WHO HAS WORKED IN CAIRO AND SUFFERED FROM THE
WOEFULLY INADEQUATE COMMUNICATIONS SYSTEM CAN DO ANYTHING
BUT WELCOME THE PROSPECTS OF AN IMPROVED TELEPHONE SER-
VICE SUCH AS SUGGESTED BY CONTINENTAL AND THE AMERICAN
CONSORTIUM OF WHICH IT IS A PART. WE ARE ALSO MINDFUL
THAT GARNERING A \$20 BILLION CONTRACT WOULD HAVE A
POSITIVE IMPACT ON THE U.S. ECONOMY. FOR BOTH OF THESE
REASONS, WE ARE PREPARED TO GIVE ALL APPROPRIATE SUPPORT
TO THE U.S. CONSORTIUM, PROVIDED IT IS THE ONLY AMERICAN
COMPANY PROPOSING FOR THE WORK, IN ACHIEVING ITS OBJEC-
TIVE OF BEING CHOSEN TO CARRY OUT CONTINENTAL'S RECOM-
MENDATIONS FOR AN IMPROVED TELEPHONE SYSTEM. HOWEVER,
WHILE CONTINENTAL'S WOHLSTETTER HAS CLAIMED THAT THIS
IS THE ONLY VIABLE U.S. CONSORTIUM, THAT NEEDS TO BE
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PROVEN BEFORE WE CAN COME OUT FULL SQUARE FOR THIS ONE
PROPOSAL--AND FROM OUR PERSPECTIVE IT WOULD APPEAR THERE
ARE OTHER MAJOR U.S. TELECOMMUNICATIONS FIRMS WHICH COULD
BRING TOGETHER A COMPETITIVE CONSORTIUM. WE WOULD DO SO
IN COURSE OF OUR NORMAL SUPPORT FOR AMERICAN BUSINESS
ACTIVITIES IN EGYPT.

2. AT SAME TIME, WE ARE SOMEWHAT CONCERNED THAT CONTINENTAL AND OTHER CONSORTIUM MEMBERS SEEM TO BE ANGLING FOR SIZABLE ALLOCATION OF U.S. AID FUNDS. AS DEPT AWARE, FY-78 AID PROGRAM ALREADY HAS \$40 MILLION ALLOTTED FOR TELECOMMUNICATIONS FACILITIES AND AN APPROXIMATELY SIMILAR ALLOCATION IS ENVISAGED FOR FY-79. THIS IS IN ADDITION TO SUBSTANTIAL EQUIPMENT SUPPORT THROUGH CIP. WOHLSTETTER, IN MAKING HIS PITCH, ARGUED THAT IMPROVED TELEPHONES SHOULD HAVE PRIORITY OVER SUCH OTHER AID PROJECTS AS IMPROVING CAIRO AND ALEXANDRIA SEWAGE SYSTEMS. IMPROVED TELEPHONE SYSTEM, HE BELIEVES, WOULD ASSIST CAIRO IN AGAIN BECOMING BUSINESS AND FINANCIAL CENTER OF MIDDLE EAST.

3. WE BELIEVE SOME AID SUPPORT FOR PROJECT MAY BE IN ORDER, BUT NOT AT EXPENSE OF OTHER HIGH PRIORITY PROJECTS. EGYPT'S OVERALL INFRASTRUCTURE IS IN DEPLORABLE STATE OF DECAY AS RESULT OF TWENTY-FIVE YEARS OF NEGLECT. MUNICIPAL SERVICES IN CAIRO, ALEXANDRIA AND ELSEWHERE ARE INADEQUATE TO COPE WITH THE DEMANDS OF A SWOLLEN POPULATION. THE TRANSPORT SYSTEM IS DECREPIT. THE LIST COULD BE CONTINUED INDEFINITELY. HOWEVER IMPORTANT IMPROVED TELECOMMUNICATIONS ARE, CONCURRENT IMPROVEMENT IN ALL OTHER AREAS, ESPECIALLY THOSE MORE DIRECTLY AFFECTING LOW INCOME URBAN GROUPS, IS EQUALLY ESSENTIAL IF GOE IS TO SATISFY ITS PUBLIC. IT MAKES NO SENSE, FOR

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EXAMPLE, TO CONCENTRATE ON TELEPHONE IMPROVEMENT WHILE CAIRO'S SEWAGE SYSTEM IS ALL CLOGGED UP; RELATIVELY FEW EGYPTIANS REALISTICALLY CAN ASPIRE TO HAVING ACCESS TO TELEPHONES AT ALL IN THE FORESEEABLE FUTURE. IF CAIRO IS AGAIN TO BECOME A BUSINESS AND FINANCIAL CENTER FOR THE MIDDLE EAST, NOT ONLY DOES IT NEED TELEPHONES, BUT ALL KINDS OF INFRASTRUCTURE THAT BUSINESSMEN EXPECT. THUS, IN OUR VIEW, IT WOULD BE A MISTAKE TO ALLOCATE SO LARGE A PROPORTION OF AID FUNDS TO TELECOMMUNICATIONS THAT OTHER EQUALLY WORTHY AND NEEDED PROJECTS IN WHICH WE ARE ENGAGED OR PLAN TO BECOME ENGAGED ARE NEGLECTED. THIS WOULD BE ROBBING PETER TO PAY PAUL.

4. SUCH U.S. FUNDING AS MIGHT BE NEEDED FOR PROJECT SHOULD NOT REDUCE AVAILABILITY OF AID FUNDS FOR OTHER DEVELOPMENT ACTIVITIES CURRENTLY PLANNED. WE WOULD HOPE THAT TELECOMMUNICATIONS PROJECT SUCH AS CONTINENTAL AND CONSORTIUM PROPOSE WOULD RECEIVE SYMPATHETIC CONSIDERATION BY EX-IM BANK. CONCEIVABLY AN ADDITIONAL CONGRESSIONAL APPROPRIATION MIGHT EVEN BE CONSIDERED FOR PROJECT OF THIS MAGNITUDE. CLEARLY, HOWEVER, IF PROJECT IS TO MATERIALIZE, THE BULK OF THE FUNDING WOULD HAVE TO COME

FROM SAUDI ARABIA AND WEALTHY ARAB STATES. EGYPT ITSELF
LACKS THE RESOURCES TO FUND SO SIZABLE A PROJECT.

5. SHOULD CONSORTIUM AGAIN APPROACH DEPT/TREASURY
OFFICIALS, WE SUGGEST THAT USG'S INTEREST IN PROJECT
BE REITERATED, BUT THAT ANY IDEA OF EAR-MARKING APPRE-
CIABLY LARGER PORTION OF AID FUNDING TO TELECOMMUNICATIONS
BE FIRMLY DISCOURAGED.

6. WE ALSO URGE AID/W TO ADDRESS AT EARLIEST POSSIBLE
TIME WHETHER IT IS WILLING TO HAVE CONSORTIUM ENTER
DIRECT NEGOTIATIONS WITH GOE AND AID RE FINANCING SOUGHT
WITHOUT GOE AND AID SEEKING COMPETITIVE BIDS AND
PROPOSALS. EILTS
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